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U. S. DEPARTMENT OF AGRICULTURE

Forming Farmer Cooperatives



FCS Educational Circular 10
Farmer Cooperative Service
U. S. Department of Agriculture

THE FARMER COOPERATIVE SERVICE conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of the studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

Joseph G. Knapp
Administrator
Farmer Cooperative Service
U. S. Department of Agriculture

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This educational circular is one of the You and Your Co-op series. It was prepared for use of farmers and others interested in organizing farmer cooperatives and for educational work with rural youth.

FCS Educational Circular 10
(Formerly FCA Circular E-19)
Revised April 1956

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Forming Farmer Cooperatives

FARMER COOPERATIVES are an integral part of the economic life of America. The many and diverse forms of farmer cooperatives now existing have grown out of the special economic and social needs of the American family farm. They represent modernization of the tradition of neighbors working together to help themselves and each other in purely democratic fashion.

Although many fine farmer cooperatives exist, there is still opportunity in some areas for the development of new associations to do efficient jobs of marketing and purchasing. In a land as vast and diversified as the United States, it is reasonable to assume that such opportunity will always exist.

This pamphlet is designed to present, in a general way, some of the more common steps involved in forming a farmer cooperative. It is addressed primarily to farmers and community leaders interested in organizing a cooperative and wanting information on major points to be considered. It can also be useful to students and others wishing general information on this subject.

If you are interested in organizing a farmer cooperative, you can consult some of the more specialized publications available on the subject. A list of such publications that can be obtained from Farmer Cooperative Service is on the back cover of this publication.

To organize a farmer cooperative

four jobs must be carried out:

1. Determine the need for a cooperative.
2. Decide the form and plan of the association.
3. Obtain members, capital, and business volume.
4. Incorporate and complete the organization.

Farmers interested in forming the organization should do much of the first three of these jobs. You need to do these important preliminary jobs before you take any steps to obtain a charter. Your county agricultural agent, teacher of vocational agriculture, extension marketing specialist, and leaders in other nearby cooperatives can always be of assistance and should be consulted frequently in planning the organization.

The district banks for cooperatives may also be able to give helpful advice and suggestions. These banks are located at Springfield, Mass.; New Orleans, La.; Wichita, Kans.; Baltimore, Md.; St. Louis, Mo.; Houston, Tex.; Columbia, S. C.; St. Paul, Minn.; Berkeley, Calif.; Louisville, Ky.; Omaha, Nebr.; and Spokane, Wash.

Part of the second job and nearly all of the fourth, that of preparing the organization papers and incorporating the association, are legal matters. In completing these steps you will need help and guidance from an attorney who is familiar with cooperative organization.

NOTE.—This is a revision of "Forming Farmers' Cooperatives" by Tom G. Stitts, which was published as FCA Circular E-19. Much of the original text has been

retained in this revision by Raymond J. Mischler, Attorney, Office of the General Counsel, U. S. Department of Agriculture, and by Farmer Cooperative Service.

Determining the Need

THE JOB of finding out whether a farmer cooperative should be organized requires the help of only a small group. Large public meetings or extensive surveys usually are not required. Most of the information necessary for making this decision can be obtained easily and quietly. It is good procedure for the group investigating the possibilities of starting a cooperative to raise a number of questions and then determine the answers by such means as are necessary. Some of the questions to be considered are:

1. Is there a real need for this cooperative?
2. How are the services it is to render now being performed?
3. Are the costs of the available services reasonable?
4. In what ways could a cooperative reduce these costs or improve the services?
5. What benefits may members expect?
6. What responsibilities and risks must members be willing to assume?
7. Have the prospective members had any previous cooperative experience?
8. How much money will the members have to furnish in starting the cooperative?
9. Will the volume of business furnished by members be enough to insure low per unit costs?
10. Will the cooperative be operated efficiently and economically?

No farmer cooperative should be organized unless it can serve a useful purpose. Not only must the need exist but the members must realize the need and also be convinced a cooperative will meet it. A cooperative is not needed unless its members will obtain benefits from it that they would not otherwise receive. A cooperative may either provide for its members some service not available in the commu-

nity, or improve services already available through commercial channels.

Most communities are well supplied with commercial agencies through which farm products may be sold or farm supplies bought. If establishing a cooperative will not increase sales returns or improve services already available through existing business organizations, there is no good reason for forming it.

Improved Services Justify Co-op

When you market your farm products or purchase supplies through commercial agencies, you pay them for furnishing you these services. The amount you pay is reflected in the price. Farm products have always paid their own way to market and will continue to do so whether marketed through cooperative or other agencies.

Often a community needs a farmer cooperative to market certain products or purchase supplies because services required by farmers are either not available or not obtainable at reasonable cost. In practically every kind of business, per unit operating costs tend to decline as the volume of business increases. Farmers can obtain lower handling costs by bringing their business together in a cooperative with adequate volume.

The need for a cooperative to provide some new or additional service to the community must be measured by the benefits that will be obtained in relation to the costs. Examples of such cooperatives include marketing or purchasing organizations, rural telephone companies, refrigerated food lockers, and canneries for fruits or vegetables that will be more conveniently located than available commercial handlers are.

Success Not Guaranteed

Regardless of how favorable the opportunities for a cooperative may be, its success is never a certainty. In the

first place, a cooperative must have enough business and, in the second place, enough capital if it is to be run efficiently and economically. The members of a cooperative are its chief source of business and its most important source of permanent capital.

There is a risk in investing money in a cooperative, as there is in any other business organization. A cooperative has operating expenses the same as other business firms. Since the members of a cooperative are the ones who receive its benefits, they must also as-

sume the risks. In order for a cooperative to have low operating costs its members must furnish it with the amount of business it is set up to handle.

Selection of competent management through election of the board of directors is also a responsibility of members. Members adopt and amend the by-laws — the general rules by which the business is run. Members of a cooperative, as its “owners” and its patrons, should assume all its risks and receive all its benefits.

Deciding Form and Plan

BY THE TIME the second job of deciding on the form and plan for the cooperative is undertaken, several more leading farmers in the community probably will have been added to the original group. This group should continue to plan and develop the organization, while discussing the idea with other farmers at every opportunity. It may be helpful to have several small discussion groups led by someone familiar with cooperative organizations.

It usually is not wise to call a general meeting of all the prospective members until the organization plans have been worked out in detail. The larger group that will attend the organization meeting usually is more interested in having a concrete plan presented for acceptance than in trying to make plans.

In formulating plans, the wishes of all prospective members should be considered insofar as they are known. Some of the things that will have to be decided are:

1. What services the cooperative proposes to furnish.

2. How it will settle with members for products marketed through it and determine prices to be charged for supplies sold to members.

3. How much capital will be required for the co-op to operate efficiently.

4. How much each member will be expected to invest.

5. Whether the association is to be stock or nonstock.

6. If nonstock, what kind of certificate will be issued members for invested capital.

7. Whether voting will be on the basis of one man, one vote; amount of capital furnished; or volume of business contributed.

8. How much borrowed capital is likely to be needed and the source from which it can be obtained.

It is important to decide such matters as these and have them passed upon by an attorney before presenting the plan of organization to the prospective members at large.

State Laws Cover Organization

A copy of the cooperative marketing statute of the State where the association is being organized will furnish helpful information in answering some of these questions. Each State has one or more laws authorizing the forming of cooperative corporations. You can obtain copies of these laws from your attorney or by writing to the proper State official, usually the secretary of state.

Although there are wide variations in the provisions of the cooperative laws of the different States, they generally specify the following:

1. Minimum number of members required to incorporate.



Small discussion groups often accomplish much in getting a cooperative started. Their work lays the foundation for action by a larger group.

2. Conditions to be included in the articles of incorporation and bylaws.

3. The State official or department with which the articles of incorporation are to be filed.

4. Fees required.

5. General powers, rights, and obligations of the cooperative.

6. Voting rights of stockholders and members.

7. Terms and conditions of membership.

8. Nonmember relationships.

9. General provisions with respect to distribution of savings or net margins.

10. Capital structure — stock or nonstock.

In addition to the requirements of State laws covering cooperatives, provisions of certain Federal statutes referring to income tax, antitrust laws, and requirements for obtaining loans from banks for cooperatives also should be considered.

No cooperative is completely exempt from Federal income tax. All farmer cooperatives and other business entities having a legally binding obligation to distribute to their patrons all funds received from transactions with

them, after deduction of necessary expenses of running the business, have the right to exclude such patronage refunds from gross income for Federal income tax purposes.

Certain marketing and purchasing farmer cooperatives, by complying with strict limitations, also are permitted a form of Federal income tax treatment which allows them to deduct from gross income dividends paid on capital and nonpatronage receipts allocated on a patronage basis. But under existing regulations of the Internal Revenue Service, farmers receiving patronage refunds must take them into account in preparing their individual income tax returns.

This special form of tax treatment for farmer cooperatives must be applied for on Internal Revenue Form 1028, which is furnished by the local Director of Internal Revenue on request. On the basis of the request, the cooperative will be granted a letter of "exemption" if it is found qualified.

The chief requirements for such qualification are these:

1. It must be a farmers', fruit-growers', or like association organized

and operated on a cooperative basis to (a) market products of members or other producers, or (b) purchase supplies and equipment for the use of members or other persons.

2. Substantially all its stock (other than preferred nonvoting stock) must be owned by producers marketing products or purchasing supplies through it if it is organized on a capital share basis.

3. The dividend rate on capital shares must not exceed the legal rate of interest in the State of incorporation, or 8 percent a year, whichever is the greater, based upon the value of the consideration for which the capital share was issued.

4. Financial reserves are restricted to those required by State laws or those that are reasonable and necessary, and must be allocated to patrons unless the cooperative includes them in computing taxable income.

5. Business with nonmembers may not exceed 50 percent of the cooperative's total business, and purchasing for persons who are neither members nor producers may not exceed 15 percent of the cooperative's total purchasing.

6. Nonmembers are to be treated the same as members in such business transactions as pricing, pooling, or payment of sales proceeds, in prices of supplies and equipment, in fees charged for services, or in the allocation of patronage refunds to the accounts of patrons.

7. Permanent records of the patronage and equity interests of all members and nonmembers must be maintained.

8. The legal structure of the organization must be cooperative in character and contain no provisions inconsistent with these requirements, and the association must be actually operated in the manner and for the purposes outlined in the requirements.

The Capper-Volstead Act authorizes producers of agricultural products to unite without violating the anti-trust laws and to act through a co-

operative in handling and marketing their products.

In order for an agricultural cooperative to come within the Capper-Volstead Act, it must be composed of "persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers." It must also operate on a mutual basis for the benefit of its members thereof as producers. It must conform to one or both of these requirements: (1) No member of the association may have more than one vote or (2) the association may not pay dividends on stock or membership capital in excess of 8 percent per year. Finally, it must not deal in the products of nonmembers in an amount greater in value than it handles for members.

Certain provisions (sec. 15) of the Agricultural Marketing Act of 1929, as amended, another Federal statute, should also be considered in forming plans for a cooperative. This act gives a definition of a farmer cooperative that is eligible to borrow money from a bank for cooperatives. The essential provisions of this act are:

1. The association must be operated for the mutual benefit of the members as patrons.

2. The amount of member business must exceed the amount of non-member business.

3. Voting must be limited to one man, one vote; or dividends on the invested capital shall not exceed 8 percent.

A cooperative may, of course, limit both voting and dividends on its capital, but at least one of these limitations is necessary to meet the definition of a cooperative as contained in section 15 of the Agricultural Marketing Act.

Plan of Financing Important

One of the most important phases of operating a cooperative is its financing. Success or failure may depend on the soundness of the financial plan.

Lack of sufficient capital funds to carry on the business is one of the most restricting influences a cooperative can have.

As already indicated, there are two basic approaches to capital structure—(1) capital stock and (2) membership organization with capital supplied by members in other than stock form. If you decide to have capital stock, two types are usually authorized. These are:

1. Common Stock. Most cooperatives on a stock basis use common stock as the voting stock. In small cooperatives it is desirable to fix the par value of this stock low—for example, from \$1 to \$25 a share. Some cooperatives provide for dividends on common stock, others do not. Most such stock is nonassessable—that is, after the holder has paid its par value he cannot be required as a stockholder to pay any more to the support of the association. Also, it is common to provide that the association may “call”—that is, retire and pay off—the stock at its discretion. How the stock may be voted (one member, one vote no matter how many shares are held, in accordance with usual cooperative procedure; or on the basis of business volume furnished if desired and State law permits) should be covered in the organization papers. The bylaws should provide for retirement or transfer of common stock if the member dies, moves out of the area, or violates any of the bylaws or rules and regulations of the association.

2. Preferred Stock. This stock usually is nonassessable, nonvoting, and preferred on liquidation—that is, paid off before the common stock if the association goes out of business. Dividends may be paid on it, within prescribed limits, and it may be sold to investors and nonmember patrons as well as to members. Restrictions on its transfer should be limited so it may freely circulate. Some cooperatives issue this stock in payment of patronage refunds.

Other Capital Sources

A membership cooperative, and a stock cooperative as well, may provide for obtaining capital from patrons by adopting a revolving-fund plan of financing. Under this plan, the patron contracts with the association that a flat rate per unit marketed, a percentage of the sales proceeds of all products marketed, or a percentage of all net operating margins to which he may be entitled as patronage refunds is to be invested in or loaned to the cooperative for capital purposes.

Capital is accumulated in this manner until it reaches a level deemed adequate by the board of directors. Thereafter, although additional investments are continued currently, excess cash funds are used to retire the earlier contributions in chronological order. Many consider this the most equitable plan of financing a cooperative, since it requires current patrons to furnish capital in proportion to their current patronage, and the capital furnished by the patrons of former years is returned to them after a reasonable interval. This interval should be thoughtfully planned and ordinarily not exceed 10 years.

Both types of cooperatives may meet part of their capital needs by borrowing. Such borrowings may take the form of commercial bank loans, cooperative bank loans, and various types of debentures issued to patrons and others. It is a serious mistake for cooperatives to rely too heavily on this type of financing. A sound use of credit is considered good business.

Before any subscriptions for capital are solicited, it is necessary to see that the requirements of State laws with regard to the sale of stock, known as “blue sky” laws, have been met. An attorney will be able to tell you where this information is available.

Several Committees Desirable

After all available information has been obtained on the need for a cooperative, after principles and practices have been determined, necessary

legal requirements have been taken care of, and the ideas of the group sponsoring the organization are in substantial agreement, final plans should be made for presenting all this information at a general meeting of all prospective members.

In making the detailed plans it may be helpful to have several small committees. As a rule a committee of 3 or 5 people is able to accomplish more than a group of 10 or 15. Some of the special committees that may be needed include one on organization, one on location and facilities, and one on membership and subscriptions.

The committee on organization will be responsible for having the organization papers prepared. The attorney who has been selected will work with this committee. Its job will be to have drafted such papers as (1) the organization agreement to be used in soliciting members and capital; (2) articles of incorporation; (3) bylaws; and (4) such other forms as are necessary, including meeting notices and waivers of notice, membership or stock certificates, and a membership agreement if one is to be used.

The committee on location and equipment has the job of obtaining information on the cost of sites, buildings, plants, equipment, fixtures, or

such other facilities as the co-op will need to carry on its business. This committee should confine its activity to obtaining information and receiving offers rather than attempting to make any binding agreements. Such agreements ordinarily would not be binding on the association anyway until ratified by the directors. But these cannot be officially chosen, nor is the cooperative legally in existence until the articles of incorporation have been approved and signed by the secretary of state or some comparable official.

The committee on membership and subscriptions cannot do much of the work until after the plans of some of the other committees have been submitted and approved. Insofar as possible, this committee should attempt to do the greater part of its work at the time the public organization meeting of all prospective members is held.

All the committees should, of course, work closely together. It may be desirable to have one or more of the same persons serve on all the different committees in order to direct their activities along the same lines. Several joint meetings of all committees will probably be necessary to perfect final plans for forming the cooperative.

Obtaining Members, Capital, and Business Volume

AFTER THE PLANS have been definitely formulated, it is time to call a general meeting of all interested farmers in the community to discuss and consider them. The first order of business at this meeting is to select a chairman and a secretary. For the benefit of anyone in attendance who may not clearly understand what a cooperative is and how it works, someone who is well informed on the subject can discuss the general principles and practices of a farmer cooperative.

Detailed plans for the proposed organization can then be explained.

Each committee should have findings to report.

The chairman of the meeting should encourage a frank discussion by all those present. Questions must be encouraged to bring out important details. Any changes suggested in the original plans should be decided by a vote of the entire group. Care needs to be taken, however, that any changes made in the plans comply with provisions of the statute under which the cooperative is to be incorporated.

The membership and subscription committee should obtain as many

members or subscribers as possible at this meeting. Plans ought to be made before the meeting is adjourned to contact other farmers who may be interested but are not in attendance. Volunteers to assist the membership committee in making a farm-to-farm canvass should be obtained. If the area to be covered is large, or the prospective members scattered, it may be well to assign two-man teams to specified localities, such as school districts or other geographical areas.

All who serve on the membership and subscription committees need to be well posted regarding information already obtained and plans for the

association. It is all-important that they have a thorough understanding of the provisions and procedure under which a cooperative operates. Soliciting prospective members should be done on a frank, straightforward business basis and care exercised to avoid making representations or promises that cannot be fulfilled.

All capital subscriptions obtained by the membership and subscription committee should be turned over promptly to some person designated by the committee. He then keeps a complete record of these subscriptions by individuals and a detailed record of any expenses incurred.

Incorporating and Completing Organization

AS SOON AS YOU have signed up enough members to insure the desired volume of business and the necessary capital, you are ready to incorporate the association. Incorporation is the act by which a corporation is brought into being. The corporation has authority to conduct a business in its own name, that is, one separate and distinct from the farmers who are its members and "owners."

Generally speaking, incorporation limits the liability of each of you as members to the amount of capital you have subscribed or paid in. Only the provision of the State laws needs to be considered insofar as incorporating or obtaining a charter is concerned. There is no Federal statute for incorporating farmers' marketing or purchasing cooperatives.

Before filing the articles of incorporation, the association must have the minimum paid-in capital required by law, and stock subscribers must pay at least the minimum required by law on their stock subscription. In most States, under the cooperative statutes, the persons who are to act as incorporators of an association must be producers of agricultural products, and names and addresses of the first board of directors must be included

in the articles of incorporation. Usually the incorporators, or some of them, are also named in the articles of incorporation as members of the first board of directors. Under the statutes of some States the articles of incorporation are also required to state the persons who will be the first officers.

Following the filing of record of the articles of incorporation, it usually is in order for those named therein as incorporators to hold a meeting as the "charter members" of the association for the purpose of adopting bylaws.

Bylaws Require Majority Vote

Nearly all the statutes under which cooperatives are incorporated provide that a majority vote of the members or stockholders, or their written assent, is necessary for adopting bylaws. Persons named in the articles of incorporation as incorporators are generally regarded as members or stockholders of the association on the filing of the articles of incorporation. Further action is usually required for making members or stockholders of those who have subscribed for stock or who have agreed to become members.

For convenience in organizing cooperatives, the "charter" members



Dedication ceremonies of Shen-Valley Meat Packers, Inc., Timbersville, Va. Additions have been made to the plant since the original facility was built.

usually adopt the original bylaws. Since legal notices of this meeting will not have been sent to these members, each of them should sign a waiver of notice and consent to holding the meeting. Under some statutes, bylaws are adopted by the incorporators as incorporators. Likewise, if the first board of directors is not named in the articles of incorporation and the incorporators are authorized to elect them, the forms should reflect this fact.

The cooperative statute will state, at least in general terms, some of the provisions to be covered in the bylaws. Provisions in the articles of incorporation as to the name of the association, purposes, powers, capitalization, and classes of stock may or may not be repeated in the bylaws.

Generally the bylaws include such things as requirements for membership, rights and responsibilities of members, methods of calling and conducting meetings of members, voting rights and quorum, duties and qualifications of directors and officers, determination and distribution of earnings, and miscellaneous provisions with respect to bylaw amendments, corpo-

rate seal, bonding employees and officers, and dates of the association's fiscal year.

Immediately after adoption of the bylaws, the board of directors should hold a meeting. This meeting, like the first meeting of "charter" members, usually is held without the directors having been notified as provided by law and the bylaws of the cooperative that will have just been adopted. They also sign a "waiver of notice and consent" to the holding of this meeting, which is made a part of the secretary's minutes. Such waivers of notice usually will not be necessary for subsequent meetings of members or directors, as legal notices may be sent out prior to meetings in accordance with provisions in the bylaws.

Directors Decide Many Points

Among the things to be acted upon by the board of directors at their first meeting are the following:

1. Election of officers as specified in the bylaws.
2. Instructions to the president and the secretary to obtain stock certificates and to issue the same.

3. Authorization of the president and the secretary to have copies of the articles of incorporation and by-laws printed and distributed to members.

4. Adoption of the form of marketing agreement if one is to be used.

5. Acceptance of all the subscription agreements for capital stock of the association, and authorization of officers to obtain additional subscriptions for capital stock and additional signatures to the marketing agreement if one is used.

6. Selection of a depository bank.

7. Designation of officers or employees who are to be authorized to handle funds and issue checks.

8. Arrangements for bonding officers and employees in accordance with the bylaws.

9. Arrangement for bookkeeping and auditing.

10. Instructions to the secretary to obtain a corporate seal in form provided in the bylaws.

11. Transaction of any other business relating to such matters as insurance and employment of a manager and other employees.

Your cooperative is now a going concern, ready to begin operations. One of the first jobs of the original directors is to secure a location and facilities where the co-op may begin doing business. This usually is not an easy job but it is always an important one. The way it is done usually will have an influence on the operations of the co-op for a long time. Selecting a site and acquiring necessary buildings and other equipment require more foresight and judgment than day-by-day decisions that may be changed or modified at will.

Modest Beginning Is Best

The amount of capital the co-op obtains from its members to start, and its financial program with regard to building its capital from operations, should have an influence on the directors' decision on the investment the association should make in a site,

buildings, machinery, and other equipment. In many instances, new cooperatives have used most of their capital to acquire facilities without giving any thought to their need for operating capital. The tendency is for a new association to provide facilities that are too elaborate rather than facilities that are sufficient to meet their needs. It is always easier to begin modestly and expand as the need develops than it is to retrench from an overambitious start.

Determining Price in Marketing Cooperative

A marketing cooperative ordinarily should not be set up to "buy outright" the products of its members, but rather to market these products for its members. You deliver your products to your co-op to be sold rather than sell them to it. The cooperative then sells the products and gives you all of the sales proceeds, less the expense of selling and other costs incident to handling.

In selling your products through your cooperative, for example, you do much the same thing you would in sending your hired man to sell a truck load of livestock for you. You would not expect him to pay for the livestock until after it is sold. Your cooperative is one of your hired hands. As a matter of convenience to you, the co-op may give you a part of the value of your products at the time they are delivered to it for sale. This payment, however, is merely an advance, not a purchase.

Many marketing cooperatives, it is true, operate by advancing to members the competitive price for products and they have been generally successful. The business methods followed by a soundly operated co-op of this kind vary widely with the commodity handled and the nature of the market. If the commodity is nonperishable and the market is such that the products may be and are readily sold by the association at established market prices, the marketing risks are not great. The

ability to hedge the commodity on a futures exchange and the use of this safeguard are also important factors. Under such conditions the only risk the co-op assumes is that the competitive margin between its buying and selling prices is wide enough to allow for all its operating costs and expenses.

On the other hand, if the market for the commodity is subject to wide and uncertain changes in price, or the commodity is highly perishable, a co-op cannot safely advance to its members the full competitive price at the time the products are delivered to it. Such a procedure is inconsistent with the fundamental purpose and objective of a marketing cooperative, since the members rather than the cooperative receive the benefits and should assume the risks.

The members as a group do, of course, indirectly assume any risks the association takes since they supply the capital. This risk, however, is to their investment in the capital of the association which may not be in the same proportion as the amount of business furnished by each member. Since the capital of a cooperative is ordinarily limited to a return of 8 percent or less, and cannot participate in any income beyond this limited rate, it should be protected insofar as possible against

the risk of being lost by overpayment for products.

Determining Price in Purchasing Cooperative

Purchasing cooperatives usually operate by furnishing farm supplies to members at the prevailing prices. If the co-op is able to keep its costs and expenses below the margin realized on the merchandise handled, it will effect savings to distribute to its members periodically on the basis of their patronage. Benefits may be in the form of better services or in better quality at the same or even higher prices. All of these savings, however, in one way or another have a money value in addition to that of patronage refunds.

The objective of either a marketing or a purchasing cooperative is to save money for you and its other members rather than to make money for its own account. Its ultimate success depends on you and the other members as well as on the directors and the manager. A director or a manager who becomes slack in his duties or resigns may be replaced. On the other hand, if you and the other members stop supporting your co-op with your business, even an excellent board of directors and an efficient manager cannot keep it going.

Some Questions on Organizing a Cooperative

1. How many farmer cooperatives are there in the United States? in your State? in your county? in your community?
2. Who are the "cooperative leaders" in your community?
3. How would you determine whether or not a cooperative should be organized in your community?
4. What procedure would you follow in the organization work?
5. What is the minimum number of farmers that may organize a co-op according to the cooperative marketing law of your State?
6. What other requirements must be met in organizing a cooperative in your State?
7. What is meant by "incorporating?"
8. Why is it desirable to incorporate?
9. What are some of the provisions that are included in the articles of incorporation? the bylaws? the membership agreement?
10. What is meant by "getting a charter;" "charter members"?
11. By what authority is a cooperative incorporated?
12. Do Federal laws have anything to do with incorporating a cooperative? What bearing do they have?
13. What are the requirements for "exemption" from Federal income taxes for a farmer cooperative? How is this "exemption" obtained?
14. What requirements must a co-op meet to be eligible to borrow from a bank for cooperatives? Where is the bank for cooperatives in your district?
15. Distinguish between a capital stock and a nonstock cooperative.
16. Why do most cooperatives follow the one-man, one-vote rule?
17. Why is it desirable to limit dividends on invested capital?
18. Define patronage dividends.
19. What is the purpose of bylaws?
20. What provisions are usually included in the bylaws?
21. How are bylaws adopted? How are they amended?
22. Should members be required to sign a membership agreement?
23. What is a "waiver of notice and consent?" When should it be used? Why?
24. What are the duties of a member of a co-op; of directors; of the manager?
25. How are directors elected? Who hires the manager?
26. Assume that your study group is to go through all the steps of organizing a farmer cooperative. List all the things to do and in the proper order.

You and Your Co-op Series

OTHER CIRCULARS in this series are available from the Information Division, Farmer Cooperative Service, U. S. Department of Agriculture, Washington 25, D. C. The series includes:

- The Story of Farmer Cooperatives*, FCS Educational Circular 1
Using Your Wool Co-op, FCS Educational Circular 2
Guide for Teaching Farmer Cooperation, FCS Educational Circular 3
Using Your Livestock, Co-op, FCS Educational Circular 4
Financing Farmer Cooperatives, FCS Educational Circular 5
Using Your Farm Supply Co-op, FCS Educational Circular 6
Using Your Fruit and Vegetable Co-op, FCS Educational Circular 7
Using Your Co-op Elevator, FCS Educational Circular 8
Using Your Poultry and Egg Co-op, FCS Educational Circular 9
Sizing Up Your Cooperative, FCS Educational Circular 11
Managing Farmer Cooperatives, Circular E-21
Merchandising by Farmer Cooperatives, Circular E-22

Motion Picture References

- Farmers Working Together.* (16 mm., color, sound, 20 min.)
Farmer Cooperatives Today. (16 mm., color, sound, 20 min.)
The Rural Co-op. (16 mm., black and white, sound, 20 min.)
Farmer Cooperation in Europe. (16 mm., black and white, sound, 28 min.)

For information on where these films are available, contact the Farm Credit Administration's district office serving your State or Farmer Cooperative Service as listed below:

**Information Division
FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.**